

**Frequently Asked Questions**  
**Health Insurance Premium Tax Exclusion**  
**Maryland State Retirement Agency**

**What is this special tax benefit?**

Eligible retired public safety officers may exclude from gross income on their federal tax return up to \$3,000 in health insurance premiums that are deducted from the retiree's monthly retirement check and paid directly to the insurance provider by an "eligible retirement plan," including the Maryland State Retirement and Pension System.

**Who qualifies for this special tax benefit?**

You must meet several requirements to qualify for the benefit:

- You must be a retired public safety officer.
- You must have retired under a disability retirement or under a service retirement.
- You must have retired with a benefit that has not been reduced because of early service retirement.
- You must have taxable income from the retirement payments that you receive from the Maryland State Retirement Agency (MSRA). The amount of your taxable income from your retirement payments is reported to you in Box 2a of the 1099-R tax document that you receive from MSRA each January.
- Your payments for qualified health care premiums must be deducted directly from the monthly retirement payment you receive from the MSRA.

**Who does not qualify for this special tax benefit?**

Many payees receiving a payment from MSRA will not qualify, including:

- Beneficiaries of deceased public safety officers.
- Alternate payees of retired public safety officers who are receiving a portion of the retiree's monthly payment under a domestic relations order.
- Public safety officers who retired under an early service retirement and are receiving a reduced benefit payment from MSRA.
- Public safety officers who do not have health care premiums directly deducted from their retirement payments received from MSRA.
- An active public safety officer.

**In Box 2a of the 1099-R tax document that I received from MSRA there is no amount, instead the box is filled with '\*\*\*\*\*' and Box 2b is marked 'Taxable amount not determined'. Do I qualify for the special tax benefit?**

For individuals who retired before January 1, 1995, MSRA does not calculate the amount of your retirement payments that are taxable. The calculation of this amount is the responsibility of you, or your tax professional. If, based upon your calculation, you are reporting any portion of your retirement payments as taxable income then you do qualify for the special tax benefit. If based upon your calculation you are not reporting any portion of your retirement payments as taxable income then you do not qualify for the special tax benefit.

### **Who is an eligible retired public safety officer?**

For purposes of this tax exclusion the definition of a public safety officer in The Omnibus Crime Control and Safe Streets Act of 1968 applies. It defines a public safety officer as an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, as a firefighter, as a chaplain, or as a member of a rescue squad or ambulance crew. The key terms above are further defined as follows:

- "Law enforcement officer" means an individual involved in crime and juvenile delinquency control or reduction, or enforcement of the criminal laws (including juvenile delinquency), including, but not limited to, police, corrections, probation, parole, and judicial officers;
- *Law enforcement* means enforcement of the criminal laws, including
  - (1) Control or reduction of crime or of juvenile delinquency;
  - (2) Prosecution or adjudication of individuals who are alleged or found to have violated such laws;
  - (3) Corrections or detention (in a prison or other detention or confinement facility) of individuals who are alleged or found to have violated such laws; and
  - (4) Supervision of individuals on parole or probation for having violated such laws.
- *Involvement* – An individual is involved in crime and juvenile delinquency control or reduction, or enforcement of the criminal laws (including juvenile delinquency), only if he is an officer of a public agency and, in that capacity, has legal authority and responsibility to arrest, apprehend, prosecute, adjudicate, correct or detain (in a prison

or other detention or confinement facility), or supervise (as a parole or probation officer), persons who are alleged or found to have violated the criminal laws, and is recognized by such agency, or the relevant government (or, at a minimum, not denied by such agency, or the relevant government), to have such authority and responsibility.

- *Firefighter* means an individual who
  - (1) Is trained in
    - (i) Suppression of fire; or
    - (ii) Hazardous-materials emergency response; and
  - (2) Has the legal authority and responsibility to engage in the suppression of fire, as
    - (i) An employee of the public agency he serves, which legally recognizes him to have such (or, at a minimum, does not deny (or has not denied) him to have such); or
    - (ii) An individual otherwise included within the definition provided in the Act, at 42 U.S.C. 3796b(4).
- "Firefighter" includes an individual serving as an officially recognized or designated member of a legally organized volunteer fire department;
- "Chaplain" includes any individual serving as an officially recognized or designated member of a legally organized volunteer fire department or legally organized police department, or an officially recognized or designated public employee of a legally organized fire or police department who was responding to a fire, rescue, or police emergency;
- *Rescue squad or ambulance crew* means a squad or crew whose members are rescue workers, ambulance drivers, paramedics, health-care responders, emergency medical technicians, or other similar workers, who
  - (1) Are trained in rescue activity or the provision of emergency medical services; and
  - (2) As such members, have the legal authority and -responsibility to
    - (i) Engage in rescue activity; or
    - (ii) Provide emergency medical services
- Firefighter includes an officially recognized or designated public employee member of a rescue squad or ambulance crew.

### **Who can determine if I qualify for this special tax benefit?**

Only you can make the determination as to whether you qualify for this benefit. MSRA cannot make this determination for you.

### **Who can help me make this determination and claim this special tax benefit?**

There are several resources that may assist you, including:

- The Internal Revenue Service's website, [www.irs.gov](http://www.irs.gov).
- The Form 1040 Instruction Booklet produced by the IRS.
- The Internal Revenue Service (IRS) taxpayer service representatives may be contacted at 1-800-829-1040.
- The Taxpayer Advocate Service is an independent organization within the IRS charged with assisting taxpayers in the resolution of tax problems and may be contacted at 1-877-777-4778.

### **What health care insurance premiums qualify?**

Qualified health care insurance premiums include:

- medical premiums,
- prescription drug premiums,
- vision premiums,
- dental premiums, and
- long term care insurance premiums.

Remember that these premiums must be deducted directly from the retirement payment that you receive from MSRA. If MSRA does not deduct the health care premiums directly from your retirement payment then these premiums are not qualified for the exclusion.

Some important points to note:

1. With the State Health Benefits Program, your "medical premiums" include both your Health Plan premium and your Prescription Drug Plan premium.
2. Vision benefits are included with your Health Plan, so there is no separate premium for vision.
3. With the Long Term Care Insurance Plan available through Prudential, you are billed by Prudential separately and the premiums are not deducted directly from your retirement payment. Therefore, these premium payments are not qualified for the exclusion.
4. Premiums paid via check, cash or money order to the Department of Budget and Management are not qualified for the exclusion.

**What about out-of-pocket medical costs that I pay, can I use these for the exclusion?**

No. Only health care insurance premiums deducted directly from your retirement payment qualify for the exclusion.

**How can I determine how much in qualified health insurance premiums have been deducted from my retirement payments?**

If your health care premiums are administered by the Department of Budget and Management (DBM), the amount of your health care premiums directly deducted from your retirement payment by MSRA in 2013 is listed on the letter sent to you in January of 2014. If your health care premiums are not administered by the DBM, you will need to contact your former employer's Human Resource Group to get this information.

**My qualified health insurance premiums (as reported on MSRA's letter) are more than \$3,000, how much can I exclude from my income?**

The maximum exclusion amount is \$3,000. For example, if your qualified health insurance premiums are \$3,700 and your taxable income from your retirement payment (reported in Box 2a of your 1099-R tax document) is \$5,500, then you may only exclude up to \$3,000 from your income. However, regardless of the amount of your premiums, you may only exclude up to the amount of your taxable income, not exceeding \$3000.00

**Who can I contact if I don't agree with the amount of health insurance as reported on MSRA's letter?**

If you do not agree with the amount on MSRA's letter, you should contact the DBM at (410) 767-4775, Option 1 for the Customer Service Unit.

**How do I claim this tax benefit?**

The exclusion for income is claimed directly on your 1040 federal tax form. See the section on Insurance Premiums for Retired Public Safety Officers in the Form 1040 Instruction Booklet for specific directions on properly claiming the benefit on Form 1040.

**How will this information be reported on my 1099-R tax document from MSRA?**

This information will not be reflected on the 1099-R tax document that you receive from MSRA. Should you decide that you are eligible to claim the exclusion you should keep a copy of the letter sent to you by MSRA to document the amount of health care premiums deducted from your retirement payments.

**Why does the amount of health insurance premiums on the letter not match the amount in Box 5 on the 1099-R tax document which is labeled “Employee contributions/Designated Roth contributions or insurance premiums”?**

Any amount reported in Box 5 on your 1099-R tax document from MSRA is related to the amount of your employee contributions into the system that were recovered tax free during 2013. Any dollar figure in this box does not represent the amount of any health insurance premiums withheld from your benefit payment.

**How can I make changes to the health care premiums that I have deducted from my monthly retirement check?**

DBM is responsible for administering the retiree health care plans for State retirees. MSRA does not administer these plans and is only responsible for deducting premiums as directed by DBM. Any questions you have regarding your health care plans or to request changes should be directed to DBM at (410) 767-4775, Option 1 for the Customer Service Unit. If you are not a State retiree you should contact your former employer’s Human Resources Group regarding any questions about your health care plans.

**How long is this exclusion good for?**

This exclusion became effective for distributions made after 12/31/06. Presently, there is no expiration date for this special tax benefit. Therefore, retirees that MSRA feels may be qualified for the exclusion will receive a similar letter each year. This letter will be sent to you annually in January to summarize your health insurance premiums for the prior calendar year.

**I have been retired for several years, why am I receiving this letter for the first time this year?**

You are only eligible for this benefit if you have taxable income from the retirement payments that you receive from MSRA. If some portion of your benefit is taxable this year, for the first time, this is why you are now receiving the letter.